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Message Text

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22 10
ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 NEA-10 IO-11 L-03 H-02 PRS-01

PA-01 SP-02 AID-05 EB-07 NSC-05 CIEP-01 SS-15 STR-04

OMB-01 CEA-01 CIAE-00 COME-00 FRB-03 INR-07 NSAE-00

USIA-06 XMB-02 OPIC-03 LAB-04 SIL-01 /103 W
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USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 7/8/76
TAGS: EAID, EFIN
SUBJECT: ADB PROPOSED PARTICIPATION IN FINANCING OF INTERNATIONAL
SCHOOL (IS) DEVELOPMENT PROGRAM

REF: A) MANILA 17906, B) MANILA 10066, C) TREASURY 75-127,
D) TREASURY 75-125, E) MANILA 9891, 9868, 9748

SUMMARY: ADB MANAGEMENT ADVISES ITS INTENTION TO PROCEED
WITH CAPITAL NOTE PURCHASE OPTION TO FINANCE IS DEVELOPMENT
PROGRAM. ONLY SUBSTANTIVE CHANGE FROM INITIAL PROPOSAL IS
THAT INSTEAD OF CHARGING THE 1975 INTERNAL ADMINISTRATIVE
EXPENSES BUDGET FOR THE EXPENDITURE TO PURCHASE THE 300
CAPITAL NOTES (NOW ESTIMATED TO COST US$504,000 EQUIV.) IT
IS NOW TO BE TREATED AS A PREPAID EXPENSE, SHOWN AS AN
ASSET ON THE BANK'S BALANCE SHEET, AND CHARGED OFF ANNUALLY
DURING THE 12-YEAR LIFE OF THE CAPITAL NOTES. USADB
RECOMMENDS APPROVAL OF ADB PROPOSAL. END SUMMARY.

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1. AS REPORTED PARA 6, REF A, ADB HAS NOW INDICATED

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ITS INTENTION TO PROCEED WITH THE CAPITAL NOTE PURCHASE OPTION OF FINANCING IS DEVELOPMENT PROGRAM AS INITIALLY SET FORTH IN BOARD DOC R63-75 OF 4 JULY 1975 AND DISCUSSED IN REFTELS. ADB HAS NOW ISSUED ADDENDUM 1 TO BD DOC R63-75 WHICH IS BEING POUCHED. BOARD CONSIDERATION SCHEDULED JANUARY 27.

2. ADDENDUM DOC DESCRIBES OUTCOME OF LITIGATION INITIATED BY GROUP OF CONCERNED PARENTS WHO HAD FILED PETITION AGAINST IS PROCEEDING WITH DEVELOPMENT PROGRAM AND WHO HAD OBTAINED COURT RESTRAINING ORDER. COURT ON NOVEMBER 16 RESOLVED CASE IN FAVOR OF IS AND RESTRAINING ORDER WAS LIFTED.

3. ADDENDUM DOC RECALLS THAT PARA 18 OF ORIGINAL DOC RECOMMENDS THAT ADB PURCHASE 300 CAPITAL NOTES AT PESOS 12,600 EACH FOR TOTAL OF PESOS 3,780,000 (EQUIV. COST NOW US$504,000, DOWN FROM ORIGINAL US$555,882 DUE TO ADJUSTMENT IN PESO EXCHANGE RATE).

4. ADDENDUM DOC STATES BANK VIEW THAT ORIGINAL INTENTION OF CHARGING ENTIRE CAPITAL NOTE EXPENDITURE TO 1975 BUDGET FOR INTERNAL ADMINISTRATIVE EXPENSES AS LINE ITEM QUOTE BENEFITS UNQUOTE FOR STAFF AND BD OF DIRECTORS, IS INAPPROPRIATE. INSTEAD, BANK NOW PROPOSES CONSIDER OUTLAY AS PREPAYMENT TO BE SHOWN ON BOOKS AS MISCELLANEOUS ASSET UNDER PREPAID EXPENSES, AND PROPOSES THAT IT BE CHARGED OFF ANNUALLY DURING 12 YEAR PERIOD OF CAPITAL NOTE VALIDITY.

5. BUDGETARY IMPLICATIONS OF THE ABOVE-PROPOSED TREATMENT OF THE EXPENDITURE WOULD REQUIRE THAT AN ANNUAL ALLOCATION BE MADE TO COVER THAT PART OF THE DEVELOPMENT FEE (75 PERCENT) WHICH IS ASSUMED BY THE BANK AS A GRANT BENEFIT TO THE STAFF. BANK HAS ESTIMATED $53,000 ALLOCATION WOULD BE NEEDED TO COVER REIMBURSEMENT COSTS TO STAFF FOR FIRST ANNUAL PAYMENT OF THE DEVELOPMENT FEE FOR THE CURRENT SCHOOL YEAR 1975-76. SECOND BUDGET ALLOCATION FOR SCHOOL YEAR 1976/1977 ESTIMATED AT $59,000. ALTHOUGH NO SPECIFIC PROVISION FOR $53,000 ITEM WAS MADE IN 1975 BUDGET, THIS AMOUNT
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COULD BE ACCRUED AGAINST THAT BUDGET BY REALLOCATION OF UNUTILIZED FUNDS NOW AVAILABLE. THE $59,000 MAY HOWEVER REQUIRE A SUPPLEMENTARY PROVISION FOR THE 1976 BUDGET SINCE NO PROVISION WAS MADE THEREIN (ADB DOC R115-75),

6. COMMENT: IN REVIEW OF EARLIER DISCUSSION OF THE CAPITAL NOTE PROPOSAL PER REFTELS CITED, IT IS NOTED

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THAT RESPONSES HAVE NOT PREVIOUSLY BEEN MADE TO QUESTIONS RAISED IN PARAS 1 AND 2 OF REF C. FOR ACCOUNTING PURPOSES, BANK CONSIDERS PROPOSED PURCHASE AND SALE OF IS CAPITAL NOTES A FINANCIAL TRANSACTION SEPARATE AND DISTINCT FROM REIMBURSEMENT OF STAFF FOR 75 PERCENT OF EDUCATION EXPENSES UNDER PROVISIONS OF ADMINISTRATIVE ORDER NO. 3.02 TITLED QUOTE EDUCATION GRANTS END QUOTE. (EACH OF THE 300 CAPITAL NOTES BEING PURCHASED BY ADB HAS 12 COUPONS WITH FACE VALUE OF 2000 PESOS EACH.) THUS ADB RESPONSE TO LEGAL QUESTION RAISED PARA 1 REF C IS THAT E.G., FOR EACH CHILD CURRENTLY ENROLLED AT HIGH SCHOOL LEVEL, STAFF PARENT EACH YEAR WOULD PAY SCHOOL NORMAL TUITION OF PESOS 5300 ($706 EQUIV.), PLUS UP TO PESOS 200 TEXTBOOK RENTALS ($26 EQUIV.); AND WOULD BUY EACH YEAR ONE CAPITAL NOTE COUPON FROM BANK AT PESOS 2000 ($267 EQUIV.) FOR SURRENDER TO SCHOOL, FOR MAXIMUM EXPENDITURE PER CHILD OF PESOS 7500 ($1000). BANK WOULD THEN IN SEPARATE TRANSACTION REIMBURSE PARENT FOR 75 PERCENT OF TOTAL OUTLAY OR $750, WELL BELOW BANK'S AUTHORIZED REIMBURSEMENT LIMIT OF $1500 PER CHILD.

7. WITH THIS ANALYSIS, NO CHANGE IN PARA C, PAGE 9 OF ADB DOC R63-75 IS REQUIRED (PARA 2 REF C REFERES), SINCE BANK CAN TECHNICALLY VIEW COUPON REDEMPTION AS PESOS 2000 ($267 EQUIV.) INFLOW, WHETHER COUPON USED FOR STUDENT OR NOT. IF NOT USED, SCHOOL REDEEMS COUPON BY PAYING BANK 2000 PESOS PER COUPON PER YEAR; IF USED, PARENT PAYS BANK 2000 PESOS PER COUPON PER YEAR, (NOT-WITHSTANDING SUBSEQUENT 75 PERCENT REIMBURSEMENT UNDER ADMIN. ORDER).

8. APART FROM MINOR FEES I.E. PTA, TEC., ONLY ADDITIONAL REIMBURSABLE EDUCATIONAL EXPENDITURE BY ADB PARENTS
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WOULD BE ONE-TIME PAYMENT OF PESOS 2000 (267 EQUIV.) MATRICULATION FEE AT TIME OF INITIAL ENROLLMENT OF NEW ARRIVALS. AGAIN UNDER BANK'S ADMIN. ORDER 3.02, 75 PERCENT OF THIS AMOUNT IS REIMBURSABLE TO PARENTS. END COMMENT.

9. BEGIN FYI: ACCORDING TO UNVERIFIED DATA AVAILABLE TO USADB, IS ANNUAL TUITION (INCLUDING ANNUALLY AMORTIZED DEVELOPMENT FEE) OF $1000 EQUIV. AT MANILA STILL COMPARES FAVORABLY TO EQUIVALENT SCHOOLS CATERING TO SIMILAR CLIENTELE IN THE ASIAN PACIFIC REGION. E.G., ILLUSTRA-TIVE ANNUAL HIGH SCHOOL TUITION FEES RANGE FROM $1427/YR AT INTERNATIONAL SCHOOL BANGKOK TO $1630 TUITION PLUS $520/YR CAPITAL FEE AT HONG KONG INT'L SCHOOL; $1763/YR AT INT'L SCHOOL OF KUALA LUMPUR AND $2400/YR AT AMERICAN

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SCHOOL IN TOKYO. END FYI. USADB RECOMMENDS NAC APPROVAL
OF $504,000 CAPITAL NOTE PURCHASE BY ADB.
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